U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Outlines Steps to Increase Retirement Income

WASHINGTON -- Sen. Chuck Grassley, chairman of the Committee on Finance, today said American workers can take several key steps to increase their retirement savings, while other items require congressional action.

"Americans are living longer than ever, but their retirement savings is dropping," Grassley said. "Some of that is because of corporate malfeasance, like at Enron. And some of it because employers just don't want to spend the money on, or may not have enough money, to spend on pension plans anymore. We need to make sure the tax code and regulations make it appealing for employers to offer pension plans. This way, more workers might end their career with a pension plan, so they won't risk outliving their retirement savings. No one should have awful surprises in retirement."

Grassley said one of the key steps Americans can take on their own is to take advantage, as much as they can, of retirement savings tax breaks that he helped to shepherd into law through the major tax cut bill of 2001. On June 7, 2001, the President signed into law the *Economic Growth and Tax Relief Reconciliation Act of 2001*. An entire section of the law, taken from a previous bill that Grassley co-authored, deals with pension plans and retirement savings accounts. Highlights include:

Individual Retirement Accounts. The 2001 law increases the maximum annual contribution to an individual retirement account from $2,000 per individual to $5,000. Catch-up contributions of up to $1,500 will be permitted for savers who are over age 50. Depending on whether savers choose a traditional or a Roth individual retirement account, those contributions are tax-deferred or tax-free. Since individual retirement accounts earn interest over time, they're very beneficial to workers planning for retirement. The greater the individual annual contribution, the more money the individual will earn for retirement, Grassley said. "These accounts are a good way to earn more money for retirement than what you'd get in a regular savings account," Grassley said.

Before the 2001 tax cuts, Congress hadn't updated the annual contribution limit for individual retirement accounts since setting the limit at $2,000 in 1981. Now, the annual limits for all savers will increase as follows: 2002, $3,000; 2003, $3,000; 2004, $3,000; 2005, $4,000; 2006, $4,000; 2007, $4,000; 2008, $5,000. In calendar years after 2008, the limit will be linked to inflation -- it will be indexed in $500 increments.

Catch-up Contributions for Older Workers, Especially Women. Grassley said the savings incentives are even greater for individuals age 50 and older. These incentives are available to men and women, but are especially attractive to many women interested in catching up on their retirement savings. Because women tend to be in and out of the workforce for child-rearing more than men, their employment-based retirement savings can be lower than men's. Under the 2001 law, individuals who are age 50 or older will be permitted to make additional contributions to a 401(k), 403(b) or governmental 457 retirement plan. The maximum permitted additional contribution is $2,000 in 2003, $3,000 in 2004, $4,000 in 2005, and $5,000 in 2006. This amount will be indexed to inflation in years after 2006.

"These provisions are to help workers who might not have been able to save much for retirement earlier in their careers," Grassley said.

A special incentive for low-income savers. The 2001 law provides a tax credit of up to $1,000 for contributions to a qualified retirement plan by individuals with adjusted gross income less than $25,000 and couples with adjusted gross income under $50,000.

A special incentive for small employers to start retirement plans for their workers. The 2001 law provides small employers with a tax credit of up to 50 percent of the cost starting a retirement plan, up to a maximum credit of $500 for the plan. The credit would expire three years after a plan was established.

Increased Benefit and Contribution Limits on Employer-sponsored Pensions and Retirement Savings Plans. The 2001 law increased the incentives for employers who offer pension plans and incentives for employees who participate in them. The law increased the amount of money that can be contributed to a plan, as well as the amount that can be paid out to participants in their benefits.

The limit on the amount of money workers can put in their 401(k) plans and other retirement plans was $10,500, indexed to inflation in $500 increments. The 2001 law increased this limit to $11,000 in 2002 and by $1,000 each year thereafter until it reaches $15,000 in 2006. In years after 2006, the annual limit on salary deferrals will be indexed to inflation in $500 increments. Beginning in 2006, more tax benefits apply.

The maximum annual elective deferral to a savings incentive match (i.e., SIMPLE) plan for employees of small employers was $6,000 in 2001. The 2001 law increased this limit to $7,000 in 2002 and by $1,000 annual increments thereafter until it reaches $10,000 in 2005. The $10,000 limit will be indexed to inflation in $500 increments.

Grassley said other important provisions of the 2001 law improve retirement plan portability for workers. The 2001 law removes the government red tape that prevented workers from taking their retirement accounts with them when they changed jobs. In addition, it strengthens legal protections for plan participants, and reduces regulatory burdens on plan sponsors. "The provisions of the law that reduce federal tax revenue are scheduled to end after 10 years," Grassley said. "Like the President, I support making all of these tax breaks permanent."

Grassley said Congress should act in other areas to increase workers' retirement income. The financial losses suffered by workers who participated in the Enron Corp.'s retirement plan and those of other high-profile companies are alarming and instructive, Grassley said.

"Enron taught us that employees can take a huge financial hit when they invest a lot of their retirement savings in securities issued by their employers," Grassley said. "When those securities deflate, so does the value of their retirement plans. Workers need to know the risks of relying on employer-provided stocks in their retirement plans."

Grassley said a recent Congressional Research Service analysis of forms filed with the Securities and Exchange Commission by 278 firms showed that, on average, company stock comprised 38 percent of the assets in their defined contribution plans. The median concentration of company stock was 24.7 percent. Both figures are higher than the 10 percent to 20 percent that many investment advisors recommend as the maximum exposure to a single firm's securities

To protect employees with employer stock in their retirement plans, Grassley last year authored the *National Employee Savings and Trust Equity Guarantee (NESTEG) Act*. The bill tightens protections for retirement plan participants in light of the collapse of the Enron Corp., WorldCom, Global Crossing and other similarly situated companies.

The *NESTEG Act* includes new diversification rights for company stock in plans; new disclosure requirements for transaction suspension periods, or black-outs; and new disclosure through periodic benefit statements and retirement savings information.

The Finance Committee unanimously passed the bill in July 2002, but the Senate's then-Democratic leadership never scheduled full Senate consideration of the bill. Grassley said he plans to re-introduce the bill soon and again work toward its success.

"Millions of Americans have hundreds of billions of dollars invested in employer-sponsored retirement plans," Grassley said. "My goal with this legislation is to make sure corporate missteps, including fiduciary mismanagement, aren't allowed to fester, especially when it comes to protecting workers' pensions."

On Tuesday, Grassley convened a hearing to examine ways to continue the survival of defined benefit pension plans, which can pay out a set amount of money each month over a worker's entire life in retirement. The number of these plans is shrinking nationwide. Grassley said Congress has to look at ways to keep these plans afloat for the benefit of future retirees.

"This is a balancing act," Grassley said. "Regulations that are too harsh will discourage these plans. But regulations also have to protect workers from those who manipulate the system and make pension promises they can't deliver. The middle ground is what we need."

Grassley said he will continue to look for ways to protect existing retirement savings plans and to encourage the creation of new plans.

“It’s been obvious for a long time that pension savings is key to a better quality of life in retirement,” Grassley said. “I encourage all eligible workers to take advantage of as many savings incentives as possible. There are a lot of new ones to help people in a variety of retirement plans. It’s never too early or too late to start saving for retirement.”

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